

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Pike County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. We have issued a qualified opinion on the aggregate discretely presented component units. We qualified our opinion on the aggregate discretely presented component units because the Pike County Golf Management Corporation, a legally separate component unit, used an accrual basis of accounting for presentation of their financial statements. The Pike County Fiscal Court used a modified cash basis of accounting for presentation of their financial statements. Accounting principles generally accepted in the United States of America, as applicable to the modified cash basis of accounting, require component units to be reported under the same basis of accounting as the primary government. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Pike County's major federal programs, Public Assistance Grants and Assistance of Firefighters Grant, for the year ended June 30, 2004.

Financial Condition:

The county had total net assets of \$38,400,614 as of June 30, 2004. The fiscal court had unrestricted net assets of \$8,457,770 in its governmental funds as of June 30, 2004, with total net assets of \$37,612,214. In its enterprise fund, total net cash and cash equivalents of \$2,075,153. Total debt principal as of June 30, 2004, was \$14,567,285 with \$3,093,184 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable William M. Deskins, Pike County Judge/Executive

Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pike County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pike County Golf Management Corporation, which represent 23% and 35%, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Pike County Golf Management Corporation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Pike County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



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Management of Pike County Fiscal Court has adopted the modified cash basis of accounting, as described in Note 1, to present the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information while management of the Pike County Golf Management Corporation, a discretely presented component unit, has adopted the accrual basis of accounting. The financial statements, because of the two different bases of accounting presented, include certain accruals required by accounting principles generally accepted in the United States of America for the Pike County Golf Management Corporation not required under the modified cash basis of accounting.

In our opinion, based on our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Pike County Golf Management Corporation's financial statements been presented on a modified cash basis of accounting, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Pike County, Kentucky, as of June 30, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for Pike County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pike County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

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In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2005 on our consideration of Pike County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County
- The County Should Maintain A Detailed Log Of County Owned Vehicles
- The Use Of County Vehicles For Commuting Is Taxable Income
- The County Should Fully Comply With The County's Administrative Code
- The Fiscal Court Should Have A Written Agreement With The Pike County Inter-Local 911 Board

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -
September 6, 2005

PIKE COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

William M. Deskins	County Judge/Executive
Jeff Anderson	Magistrate
J. Vernon Johnson	Magistrate
Leo Murphy	Magistrate
Kenneth Robinson	Magistrate
Lloyd Hillman Dotson	Magistrate
Christian Harris	Magistrate

Other Elected Officials:

Howard Keith Hall	County Attorney
Rodney Scott	Jailer
Lillian P. Elliott	County Clerk
David Deskins	Circuit Court Clerk
Charles "Fuzzy" Keese	Sheriff
Lonnie Osborne	Property Valuation Administrator
Russell Roberts	Coroner

Appointed Personnel:

Johnda B. Billiter	County Treasurer
Frankie Stacy	Finance Officer

Pike County Office of County Judge - Executive

WILLIAM M. DESKINS



Office: (606) 432-6247

Fax: (606) 432-6242

Pike County Courthouse • 146 Main Street • Pikeville, Kentucky 41501

Management's Discussion and Analysis June 30, 2004

As management of Pike County, Kentucky, (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2004. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in our financial statements and notes to the financial statements.

Financial Highlights

- The total governmental assets of the County exceeded the liabilities at June 30, 2004 by \$37,612,214. This is comparable to the previous year when net assets were \$34,056,412, a 10.4 percent increase. Total business-type net assets at June 30, 2004 were \$788,400, compared to the previous year when there was a negative net asset position of \$(171,742). Total net assets for the County increased 11.7 percent during the fiscal year.
- The County governmental activities reported current assets of \$8,940,477 with total assets of \$49,027,511 as of June 30, 2004. In its business-type activities, current assets totaled \$2,075,153 with total assets of \$3,940,388.
- At of June 30, 2004, the County governmental funds reported combined fund balances of \$8,940,477. Of this amount, \$159,919 has been reserved for encumbrances and \$482,707 restricted for debt service. Approximately \$8,457,770 is available to meet the County's current and future needs (unrestricted fund balances).
- During the fiscal year, the County announced the grand opening of the new Blackberry Senior Citizens Center, a facility costing \$235,000, to better serve the residents of the Blackberry community.
- Heavy rains during the Memorial Day weekend led to another federally declared flooding disaster, causing damages totaling \$1.9 million to County-owned roads and bridges. This, combined with previous years of flooding, has combined to total over \$16 million in damages. Substantial repairs to these facilities have been made during the fiscal year.
- In January 2004, the County's solid waste department increased the monthly fee for residential pickup of solid waste from \$10 to \$14. This increase was necessary to cover the rising costs of landfill development and equipment replacement.
- The County entered into a \$515,000 lease program to replace six Mack tandems that are in constant repair. The equipment is leased for one year, and then sold at auction. The proceeds are then applied to the lease.

Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements are designed to provide readers with a broad overview of County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information that indicates how net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received, but not collected) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has two business-type activities – the operation of a jail canteen and the solid waste program. The government-wide financial statements include not only the County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. The County has two such units – the Public Properties Corporation (a blended component unit) and the Interlocal 911 Board (a discretely presented component unit). The Pike County Golf Management Corporation is also a discretely presented component unit of the County, but has not been included in the financial statements.

Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains eleven individual governmental funds, of which the General, Road & Bridge, and LGEA funds were major. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the major governmental funds. Data from other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The County uses enterprise funds to account for the operations of the Jail Canteen Fund and the Solid Waste Fund. An enterprise fund is used to report the same function presented as business-type activities in the government-wide financial statements. One of the enterprise funds is considered to be a major fund of the County

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County's only fiduciary fund is the Jail Inmate fund, an agency fund. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, total assets exceeded liabilities by \$38,400,614 for fiscal year 2004 and \$33,884,670 for fiscal year 2003. Net assets increased primarily due to the capitalization of repairs to roads and bridges damaged during recent flooding.

Table 1
Summary of Statement of Net Assets
as of June 30, 2004 and 2003

	Governmental Activities 2004	2003	Business-type Activities 2004	2003	Total 2004	2003	Component Units 2004	2003
Assets								
Current assets	8,940,477	7,704,777	2,075,153	1,880,593	11,015,630	9,585,370	184,436	104,062
Capital assets	40,087,034	39,911,677	1,865,235	2,122,293	41,952,269	42,033,970	755,993	52,325
Total assets	49,027,511	47,616,454	3,940,388	4,002,886	52,967,899	51,619,340	940,429	156,387
Liabilities								
Current and other liabilities	2,266,229	2,275,840	826,955	1,022,280	3,093,184	3,298,120	138,224	0
Long-term liabilities	9,149,068	11,432,751	2,325,033	3,152,338	11,474,101	14,585,089	9,541	0
Total liabilities	11,415,297	13,708,591	3,151,988	4,174,618	14,567,285	17,883,209	147,765	0
Net Assets								
Invested in capital assets, net								
of related debt	28,671,737	26,203,086	(1,286,753)	(2,052,325)	27,384,984	24,150,761	622,539	53,325
Restricted	482,707	478,050	1,686,942	1,482,705	2,169,649	1,960,755	0	0
Unrestricted	8,457,770	7,226,727	388,211	397,888	8,845,981	7,624,615	170,125	104,062
Total net assets	37,612,214	33,907,863	788,400	(171,732)	38,400,614	33,736,131	792,664	157,387
Prior Year Audit Report was adjusted during the current year audit								
Adjusted Prior Period Net Assets		34,056,412		(171,742)		33,884,670		552,767

Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)

The largest portion of the County's current fiscal year net assets (71.3 percent) reflects its investments in capital assets (e.g. land, improvements, buildings, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The County's net assets invested in capital assets, net of related debt, increased in large part because of the repair of roads and bridges damaged during recent federally declared flooding disasters.

Another portion of the County's current fiscal year net assets (23 percent) represents unrestricted net assets, which may be used to meet the County's ongoing obligations to citizens and creditors.

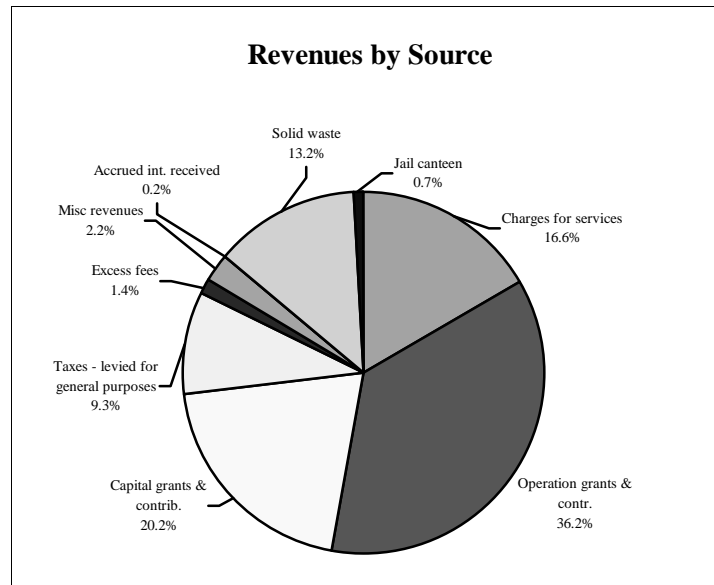
The remaining balance of the County's current fiscal year net assets (5.7 percent) represents resources that are subject to external restrictions on how they may be used.

GASB 34 requires management to include certain comparisons when they are available. These include prior and current year comparisons of changes in ending net assets, asset and liability position, general revenues by major source program revenues, and program expenses by function, for both governmental activities and business-type activities.

**Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)**

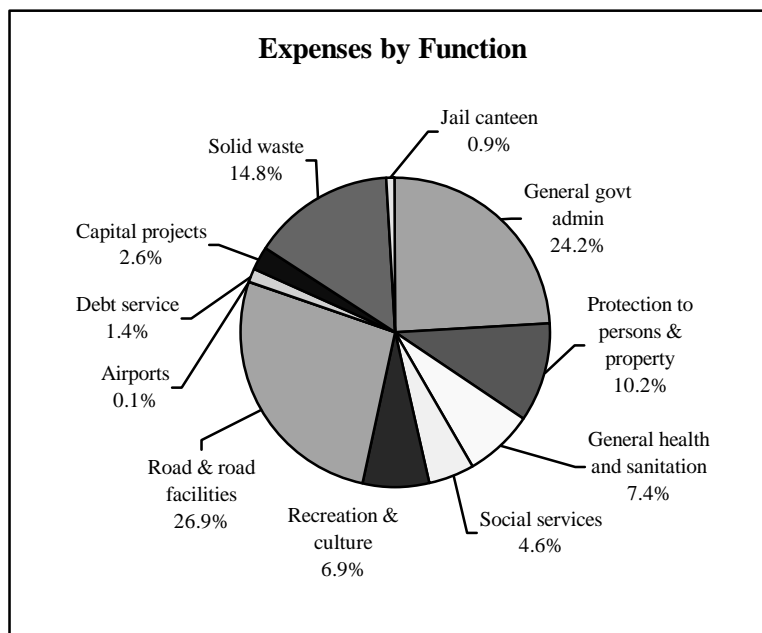
Revenues

For fiscal year ended June 30, 2004, revenues for the primary government totaled \$32,534,183. These revenues can be divided by activity type: governmental activities \$27,260,677 and business-type activities totaled \$5,273,506.



Expenses

For fiscal year ended June 30, 2004, expenses for the primary government totaled \$28,018,239. These expenses can be divided by activity type: governmental activities of \$23,704,875 and business-type activities of \$4,313,364.



Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)

Statement of Activities

The following table indicates changes in net assets for governmental and business-type activities:

Table 2
Summary of Changes in Net Assets
For the Fiscal Years Ended June 30, 2004 and 2003

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	1,035,517	274,696	5,243,667	4,999,374	6,279,184	5,274,070
Operation grants and contributions	13,405,997	7,085,358	682,358	512,779	14,088,355	7,598,137
Capital grants and contributions	7,615,845	7,470,396			7,615,845	7,470,396
General revenues:					0	0
Real property tax	1,607,973	1,827,660			1,607,973	1,827,660
Personal property tax	602,255	714,048			602,255	714,048
Motor vehicle taxes	507,169	503,708			507,169	503,708
Other taxes	794,847	1,106,333			794,847	1,106,333
Excess fees	525,392	835,738			525,392	835,738
Miscellaneous revenues	848,934	2,397,749			848,934	2,397,749
Accrued interest received	47,923	121,412	19,564	21,140	67,487	142,552
Transfers	672,083	573,363	(672,083)	(573,363)	0	0
Transfers to Component Unit	(403,258)				(403,258)	0
Total revenues	27,260,677	22,910,461	5,273,506	4,959,930	32,534,183	27,870,391
Expenses:						
General government administration	6,636,793	7,795,287			6,636,793	7,795,287
Protection to persons and property	2,387,259	2,667,977			2,387,259	2,667,977
General health and sanitation	2,023,636	2,483,566			2,023,636	2,483,566
Social Services	1,263,604	803,856			1,263,604	803,856
Recreation and culture	1,896,497	656,171			1,896,497	656,171
Roads	7,392,963	9,436,648			7,392,963	9,436,648
Airports	38,666	76,372			38,666	76,372
Road facilities	970,085	141,938			970,085	141,938
Debt Service	376,044	441,682			376,044	441,682
Capital Projects	719,328	1,249,266			719,328	1,249,266
Solid Waste			4,064,900	5,024,959	4,064,900	5,024,959
Jail Canteen			248,464	223,022	248,464	223,022
Total expenses	23,704,875	25,752,763	4,313,364	5,247,981	28,018,239	31,000,744
Change in net assets	3,555,802	(2,842,302)	960,142	(288,051)	4,515,944	(3,130,353)
Net assets-beginning-restated	34,056,412	36,750,164	(171,742)	116,309	33,884,670	36,866,473
Ending net assets	37,612,214	33,907,862	788,400	(171,742)	38,400,614	33,736,120

**Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)**

Financial Analysis of Major Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County has 3 major governmental funds. These are the 1) General fund, 2) Road And Bridge fund, and 3) LGEA fund.

1. The General fund is the chief operation fund of the County. At June 30, 2004, the General fund reported an unreserved fund balance of \$594,200.
2. The Road And Bridge fund is the fund related to County road and bridge construction & maintenance. The Road fund had \$4,197,562 in fund balance at June 30, 2004. The fiscal year 2004 expenditures for road projects were \$10.3 million.
3. The Local Government Economic Assistance fund consists of coal and mineral severance tax monies used to maintain coal haul roads and supplement other public & environmental protection programs. The LGEA fund had a fund balance of \$2,672,142 at June 30, 2004.

Proprietary Funds. The County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The County has one major enterprise-type proprietary fund, the Solid Waste fund.

1. The Solid Waste fund allows for the collection and disposal of refuse from residents of Pike County. Also included in this fund is the operation of a county landfill. The Solid Waste fund balance at June 30, 2004 fiscal year amounted to \$1,924,945.

General Fund Budgetary Highlights

Over the course of the fiscal year, the County revised the General Fund budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by \$2,276,164 from the original budget. Of this amount, \$1,612,454 was due to the receipt of federal and state funds for FEMA disasters.

Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)

Capital Assets and Debt Administration

Capital Assets The County's investment in capital assets for its governmental and business-type activities as of June 30, 2004, totals \$41,952,269 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment, and current year infrastructure additions.

Table 3
Capital Assets

	June 30, 2003 Balance	Increases	Decreases	June 30, 2004 Balance
<u>Governmental Activities:</u>				
Land	\$ 330,000	\$ 101,117	\$ (50,000)	\$ 381,117
Total Capital Assets Not Being Depreciated	\$ 330,000	\$ 101,117	\$ (50,000)	\$ 381,117
Capital Assets, Being Depreciated:				
Buildings	\$ 14,584,989	\$ 234,881		\$ 14,819,870
Vehicles and Equipment	5,594,729	344,769	(147,560)	5,791,938
Infrastructure	98,686,308	4,779,815	(145,926)	103,320,197
Total Capital Assets Being Depreciated	\$ 118,866,026	\$ 5,359,465	\$ (293,486)	\$ 123,932,005
Less Accumulated Depreciation For:				
Buildings	(6,308,474)	(457,108)		(6,765,582)
Vehicles and Equipment	(3,231,943)	(450,858)	82,770	(3,600,031)
Infrastructure	(69,743,932)	(4,227,447)	110,904	(73,860,475)
Total Accumulated Depreciation	\$ (79,284,349)	\$ (5,135,413)	\$ 193,674	\$ (84,226,088)
Total Capital Asset, Being Depreciated, Net	39,581,677	224,052	(99,812)	39,705,917
Governmental Activities, Capital Assets, Net	<u>\$ 39,911,677</u>	<u>\$ 325,169</u>	<u>\$ (149,812)</u>	<u>\$ 40,087,034</u>
<u>Business-type Activities:</u>				
Vehicles and Equipment	\$ 5,100,390	\$ 71,483	\$ (167,109)	\$ 5,004,764
Less Accumulated Depreciation For:				
Vehicles and Equipment	(2,978,097)	(295,119)	133,687	(3,139,529)
Business-type Activities, Capital Assets, Net	<u>\$ 2,122,293</u>	<u>\$ (223,636)</u>	<u>\$ (33,422)</u>	<u>\$ 1,865,235</u>

**Pike County
Management's Discussion and Analysis (Unaudited)
June 30, 2004
(Continued)**

Long-term Debt. As of June 30, 2004, the County had total debt outstanding of \$14,567,285, all of which is debt backed by the full faith and credit of Pike County.

Pike County's total debt remained the same during the past fiscal year as no new capital leases or bond issuances were incurred.

The State of Kentucky limits the amount of general obligation debt that a unit of government can issue to 2 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the County is \$47,562,463. The County had no bonds authorized but un-issued at June 30, 2004.

Economic Factors

The following key economic indicators reflect the growth and prosperity of Pike County.

- Affiliated Computer Services (ACS), a Fortune 500 company, has moved into the old Sykes facility located at the Mossy Bottom Business Park and is expected to begin operations in Pike County. This should lead to the creation of 400-450 jobs immediately with the number expected to grow to 575 within 18 months.
- In February 2005, the County agreed to a \$5.8 million jail renovation to resolve the problem of overcrowding occurring in the current facility. This new addition will increase the current capacity from 142 to 299 beds, allowing the County to adequately house the number of inmates. The County will finance this new construction with the issuance of General Obligation Improvement Bonds, Series 2005.
- In an attempt to increase tourism, the County is in the process of developing site locations from the Hatfield-McCoy feud that are located in Pike County. Also in the plans are to develop the Hatfield-McCoy trail and incorporate it into the already existing trails in other states.

Requests For Information

This report is designed to provide a general overview for all those with an interest in the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Pike County Courthouse, 146 Main Street, Pikeville, KY 41501.

PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government			Componet Units
	Governmental Activities	Business-Type Activities	Totals	Pike County Interlocal 911 Board
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 8,746,081	\$ 2,075,153	\$ 10,821,234	\$ 101,052
Receivable Due from Pike County Golf Management Corporation	180,085		180,085	
Receivable Due from Pike County Interlocal 911 Board	14,311		14,311	
Total Current Assets	8,940,477	2,075,153	11,015,630	101,052
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	381,117		381,117	
Buildings	8,054,288		8,054,288	
Vehicles and Equipment	2,191,907	1,865,235	4,057,142	619,145
Infrastructure Assets - Net of Depreciation	29,459,722		29,459,722	
Total Noncurrent Assets	40,087,034	1,865,235	41,952,269	619,145
Total Assets	49,027,511	3,940,388	52,967,899	720,197
LIABILITIES				
Current Liabilities:				
Bonds Payable	225,000		225,000	
Financing Obligations Payable	2,041,229	826,955	2,868,184	
Payable Due Primary Government				14,311
Total Current Liabilities	2,266,229	826,955	3,093,184	14,311
Noncurrent Liabilities:				
Bonds Payable	4,310,000		4,310,000	
Financing Obligations Payable	4,839,068	2,325,033	7,164,101	
Total Noncurrent Liabilities	9,149,068	2,325,033	11,474,101	
Total Liabilities	11,415,297	3,151,988	14,567,285	14,311
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	28,671,737	(1,286,753)	27,384,984	619,145
Restricted For:				
Debt Service	482,707	1,686,942	2,169,649	
Unrestricted	8,457,770	388,211	8,845,981	86,741
Total Net Assets	\$ 37,612,214	\$ 788,400	\$ 38,400,614	\$ 705,886

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS
June 30, 2004
(Continued)

Componet Units
Pike County Golf
Management Corporation
Calendar Year 2003

\$ 83,384

83,384

136,848

136,848

220,232

123,913

123,913

9,541

9,541

133,454

3,394

83,384

\$ 86,778

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For the Year Ended June 30, 2004

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 6,636,793	\$ 354,422	\$ 488,247	\$ 121,338
Protection to Persons and Property	2,387,259	643,656	2,400,817	50,000
General Health and Sanitation	2,023,636	35,623	351,000	201,423
Social Services	1,263,604			
Recreation and Culture	1,896,497	1,816	200,000	2,219,918
Roads	7,392,963		9,965,933	5,023,166
Airports	38,666			
Road Facilities	970,085			
Debt Service	376,044			
Capital Projects	719,328			
Total Governmental Activities	\$ 23,704,875	\$ 1,035,517	\$ 13,405,997	\$ 7,615,845
Business-type Activities:				
Solid Waste Operations	\$ 4,064,900	\$ 4,976,031	\$ 682,358	
Jail Canteen	248,464	267,636		
Total Business-type Activities	\$ 4,313,364	\$ 5,243,667	\$ 682,358	
Total Primary Government	\$ 28,018,239	\$ 6,279,184	\$ 14,088,355	\$ 7,615,845
Component Units:				
Pike County Inter-Local 911 Board Fund	\$ 489,382	\$ 425,180		
Pike County Golf Management Board	331,193	206,700		23,943
Total Component Units	\$ 820,575	\$ 631,880		\$ 23,943

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Gains on Sale of Fixed Assets

Transfers of Capital Assets Between

 Primary Government and Component Unit
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Disbursements) Receipts and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (5,672,786)	\$	\$ (5,672,786)	\$
707,214		707,214	
(1,435,590)		(1,435,590)	
(1,263,604)		(1,263,604)	
525,237		525,237	
7,596,136		7,596,136	
(38,666)		(38,666)	
(970,085)		(970,085)	
(376,044)		(376,044)	
(719,328)		(719,328)	
\$ (1,647,516)		(1,647,516)	
	\$ 1,593,489	\$ 1,593,489	
	19,172	19,172	
	\$ 1,612,661	\$ 1,612,661	
\$ (1,647,516)	\$ 1,612,661	\$ (34,855)	\$
		(64,202)	
		(100,550)	
		\$ (164,752)	
\$ 1,607,973		1,607,973	
602,255		602,255	
507,169		507,169	
794,847		794,847	
525,392		525,392	
848,934		848,934	
47,923	19,564	67,487	1,300
			91
			403,258
(403,258)		(403,258)	
672,083	(672,083)		
5,203,318	(652,519)	4,550,799	404,649
3,555,802	960,142	4,515,944	239,897
34,056,412	(171,742)	33,884,670	552,767
\$ 37,612,214	\$ 788,400	\$ 38,400,614	\$ 792,664

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	LGEA Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 436,508	\$ 4,197,562	\$ 2,672,142	\$ 1,439,869	\$ 8,746,081
Receivable Due from Pike County Golf Management Corporation	180,085				180,085
Receivable Due from Pike County Interlocal 911 Board	14,311				14,311
Total Assets	<u>\$ 630,904</u>	<u>\$ 4,197,562</u>	<u>\$ 2,672,142</u>	<u>\$ 1,439,869</u>	<u>\$ 8,940,477</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 36,704	\$ 32,399	\$ 67,933	\$ 22,883	\$ 159,919
Debt Service				482,707	482,707
Unreserved:					
General Fund	594,200				594,200
Special Revenue Funds		4,165,163	2,604,209	934,279	7,703,651
Total Fund Balances	<u>\$ 630,904</u>	<u>\$ 4,197,562</u>	<u>\$ 2,672,142</u>	<u>\$ 1,439,869</u>	<u>\$ 8,940,477</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 8,940,477
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	124,313,122
Depreciation	(84,226,088)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Bonds Payable	(4,535,000)
Financing Obligations Payable	(6,880,297)
Net Assets Of Governmental Activities	<u>\$ 37,612,214</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road And Bridge Fund	Local Government Economic Assistance Fund	Non- Major Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 3,476,165	\$ 743	\$	\$ 6,650	\$ 3,483,558
In Lieu Tax Payments	29,013				29,013
Excess Fees	525,392				525,392
Licenses and Permits	241,483				241,483
Intergovernmental Revenues	2,544,531	8,140,311	9,865,675	944,188	21,494,705
Charges for Services	35,623			126,199	161,822
Miscellaneous	453,520	153,166	88,495	312,777	1,007,958
Interest	9,480	11,164		27,277	47,921
Total Revenues	<u>7,315,207</u>	<u>8,305,384</u>	<u>9,954,170</u>	<u>1,417,091</u>	<u>26,991,852</u>
EXPENDITURES					
General Government	3,044,626		124,523	541,550	3,710,699
Protection to Persons and Property	133,671		642,812	1,464,765	2,241,248
General Health and Sanitation	1,639,524		425,215		2,064,739
Social Services	166,862		1,073,407		1,240,269
Recreation and Culture	378,543		1,517,954		1,896,497
Roads	63,345	9,347,177			9,410,522
Airports	38,666				38,666
Other Transportation Facilities and Services			11,459	958,626	970,085
Debt Service			337,412	477,696	815,108
Capital Projects	567,905			151,423	719,328
Administration	1,191,686	993,514	137,173	743,992	3,066,365
Total Expenditures	<u>7,224,828</u>	<u>10,340,691</u>	<u>4,269,955</u>	<u>4,338,052</u>	<u>26,173,526</u>
Excess (Deficiency) of Revenues Expenditures Before Other Financing Sources (Uses)	<u>90,379</u>	<u>(2,035,307)</u>	<u>5,684,215</u>	<u>(2,920,961)</u>	<u>818,326</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	473,262	2,486,000		2,401,752	5,361,014
Transfers To Other Funds	(610,000)	(512,714)	(3,566,217)		(4,688,931)
Transfer To Component Unit	(403,258)				(403,258)
Total Other Financing Sources (Uses)	<u>(539,996)</u>	<u>1,973,286</u>	<u>(3,566,217)</u>	<u>2,401,752</u>	<u>268,825</u>
Net Change in Fund Balances	(449,617)	(62,021)	2,117,998	(519,209)	1,087,151
Fund Balances - Beginning	1,080,521	4,259,583	554,144	1,959,078	7,853,326
Fund Balances - Ending	<u>\$ 630,904</u>	<u>\$ 4,197,562</u>	<u>\$ 2,672,142</u>	<u>\$ 1,439,869</u>	<u>\$ 8,940,477</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 1,087,151
--	--------------

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense estimated useful lives and reported as depreciation expense.

Capital Outlay	5,460,582
Depreciation Expense	(5,135,413)
Capital Asset Disposal	(343,486)
To Remove Accumulated Expense Due to Capital Asset Disposal	193,674

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

KACO Financing Obligations Principal Payment	2,078,294
Bond Principal Payment	<u>215,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 3,555,802</u></u>
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PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Solid Waste Fund	Jail Canteen Fund	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 1,924,945	\$ 150,208	\$ 2,075,153
Total Current Assets	<u>1,924,945</u>	<u>150,208</u>	<u>2,075,153</u>
Noncurrent Assets:			
Capital Assets:			
Vehicles and Equipment	5,004,764		5,004,764
Less Accumulated depreciation	(3,139,529)		(3,139,529)
Total Noncurrent Assets	<u>1,865,235</u>		<u>1,865,235</u>
Total Assets	<u>3,790,180</u>	<u>150,208</u>	<u>3,940,388</u>
Liabilities			
Current Liabilities:			
Financing Obligations Payable	826,955		826,955
Total Current Liabilities	<u>826,955</u>		<u>826,955</u>
Noncurrent Liabilities:			
Financing Obligations Payable	2,325,033		2,325,033
Total Noncurrent Liabilities	<u>2,325,033</u>		<u>2,325,033</u>
Total Liabilities	<u>3,151,988</u>		<u>2,325,033</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	(1,286,753)		(1,286,753)
Restricted For Debt Service	1,686,942		1,686,942
Unrestricted	238,003	150,208	388,211
Total Net Assets	<u>\$ 638,192</u>	<u>\$ 150,208</u>	<u>\$ 788,400</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds		
	Solid Waste Fund	Jail Canteen Fund	Totals
Operating Revenues			
Operating Grants	\$ 682,358	\$	\$ 682,358
Garbage Collection	3,490,316		3,490,316
Landfill User Fees	1,461,957		1,461,957
Recycling	11,936		11,936
Miscellaneous	11,822		11,822
Canteen Receipts		267,636	267,636
Total Operating Revenues	5,658,389	267,636	5,926,025
Operating Expenses			
Office Materials & Supplies	22,674		\$ 22,674
Office Expense	50,576		50,576
Maintenance Expense	254,716		254,716
Grant Expenditures	269,944		269,944
Uniforms	5,903		5,903
Payroll Expense	1,702,419		1,702,419
Fringe Benefits	1,201,733		1,201,733
Cost of Sales		211,037	211,037
Educational and Recreational		37,427	37,427
Depreciation	295,119		295,119
Miscellaneous	37,906		37,906
Total Operating Expenses	3,840,990	248,464	4,089,454
Operating Income	1,817,399	19,172	1,836,571
Nonoperating Revenues (Expenses)			
Interest Income	19,564		19,564
Transfer of Capital Asset to Governmental			
Activities	(33,422)		(33,422)
Lease Payments (Interest Expense)	(190,488)		(190,488)
Total Nonoperating Revenues			
(Expenses)	(204,346)		(204,346)
Net Income Before Transfers	1,613,053	19,172	1,632,225
Transfers In			
Transfers Out	(672,083)		(672,083)
Change In Net Assets	940,970	19,172	960,142
Total Net Assets - Beginning	(302,778)	131,036	(171,742)
Total Net Assets - Ending	\$ 638,192	\$ 150,208	\$ 788,400

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF CASH FLOWS- PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

PIKE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Solid Waste Fund</u>	<u>Jail Canteen Fund</u>	<u>Totals</u>
Cash Flows From Operating Activities			
Operating Grants	\$ 682,358	\$	\$ 682,358
Garbage Collection	3,490,316		3,490,316
Landfill User Fees	1,461,957		1,461,957
Recycling	11,936		11,936
Miscellaneous	11,822		11,822
Receipts From Customers		267,636	267,636
Payments to Vendors	(641,719)		(641,719)
Payments to Employees	(1,702,419)		(1,702,419)
Payments of Benefits on Behalf of Employees	(1,201,733)		(1,201,733)
Cost of Sales		(211,037)	(211,037)
Educational and Recreational		(37,427)	(37,427)
Net Cash Provided By Operating Activities	<u>2,112,518</u>	<u>19,172</u>	<u>2,131,690</u>
Cash Flows From Noncapital Financing Activities			
Transfers To Other Funds	<u>(672,083)</u>		<u>(672,083)</u>
Net Cash Provided By Noncapital Financing Activities	<u>(672,083)</u>		<u>(672,083)</u>
Cash Flows From Capital and Related Financing Activities			
Vehicles & Equipment	(71,483)		(71,483)
Principal Paid On Capital Debt	(1,014,000)		(1,014,000)
Interest Paid On Capital Debt	<u>(199,128)</u>		<u>(199,128)</u>
Net Cash (Used) Provided By Capital and Related Financing Activities	<u>(1,284,611)</u>		<u>(1,284,611)</u>
Cash Flows From Investing Activities			
Interest Earned	<u>19,564</u>		<u>19,564</u>
Net Cash Provided By Investing Activities	<u>19,564</u>		<u>19,564</u>
Net Increase (Decrease) in Cash and Cash Equivalents	175,388	19,172	194,560
Cash and Cash Equivalents - July 1	<u>1,749,557</u>	<u>131,036</u>	<u>1,880,593</u>
Cash and Cash Equivalents - June 30	<u>\$ 1,924,945</u>	<u>\$ 150,208</u>	<u>\$ 2,075,153</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	<u>Business-Type Activities - Enterprise Funds</u>		
	Solid Waste Fund	Jail Canteen Fund	Totals
Operating Income	\$ 1,817,399	\$ 19,172	\$ 1,836,571
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:			
Depreciation Expense	<u>295,119</u>	<u></u>	<u>295,119</u>
Total Cash Provided By Operating Activities	<u>\$ 2,112,518</u>	<u>\$ 19,172</u>	<u>\$ 2,131,690</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS – MODIFIED CASH BASIS
JUNE 30, 2004

PIKE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS – MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u> </u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 14,276</u>
Total Assets	<u> 14,276</u>
 Liabilities	
Amounts Held In Custody For Others	<u> 14,276</u>
Total Liabilities	<u> 14,276</u>
 Total Net Assets	 <u><u> \$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Pike County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as that of the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Pike County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

Discretely Presented Component Units

The component units' column in the combined financial statements includes the data of the following organizations. It is reported on the Statement of Net Assets and the Statement of Activities in separate columns that are labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

Pike County Interlocal 911 Board

The Pike County Interlocal 911 Board (the Board) is a legally separate entity established to provide emergency response services to Pike County. The Board's members are appointed independently of the Pike County Fiscal Court, and the Board's governing body is substantially different from that of the Fiscal Court. However, the Fiscal Court is financially accountable for the Board because of the Fiscal Court must approve rate changes established by the Board. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

Pike County Golf Management Corporation

The Pike County Golf Management Corporation (the Corporation) is a legally separate entity established to provide recreational services to Pike County. The Pike County Fiscal Court appoints the Corporation's board members, and the Corporation's governing body is substantially different from that of the Fiscal Court. The Corporation has separate corporate powers that distinguish it as being legally separate from the Fiscal Court. The Corporation is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

PIKE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Pike County Elected Officials Not Part Of Pike County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Pike County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pike County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are accounted on the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development (GOLD) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. GOLD requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The government also has the following non-major funds: Jail Fund, Federal Grant Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund, Capital Lease Acquisition Fund, and Public Properties Corporation Bond Fund.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund and the Capital Lease Acquisition Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Detention Center Corporation Bond Fund maintained by the Pike County Public Properties Corporation is used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's proprietary funds are garbage collection fees and landfill user fees in the Solid Waste Fund and charges to customers for sales in the Jail Canteen Fund. Operating expenses for the proprietary funds include payroll, lease payments, depreciation on capital assets, and administrative expenses in the Solid Waste Fund and the cost of sales and services and administrative expenses in the Jail Canteen Fund.

The government reports the following major proprietary funds:

Solid Waste Fund – The solid waste fund operations are authorized by the Fiscal Court. The Solid Waste fund allows for the collection and disposal of garbage from residents of Pike County. Also included in this fund is the operation of a county landfill. The Fords Branch Landfill Closing fund is included in the operations of the Solid Waste fund. The Fords Branch Landfill Closing fund collects funds during the active life of the landfill to cover final closure costs and post-closure maintenance and monitoring costs 30 years after final closure.

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from inmates after incarceration.

Presentation of Component Units

The financial statements present the following major discretely presented component units: Pike County Interlocal 911 Board and Pike County Golf Management Corporation.

This component unit is presented in a separate column in the combined financial statements. It is also reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and KACO financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period.

The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pike County Fiscal Court: Mountain Water District, Pike County Housing Authority, and the Pike County Extension Board.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Jointly Governed Organization

Pike County Fiscal Court, in conjunction with the City of Pikeville, has created the Pikeville-Pike County Airport Board (the Board). The Board is composed of six appointed members, three appointed from each of the two participating governments. The fiscal court appropriated \$77,250 to the Board for operating expenses. The Board reimburses the fiscal court for a portion of these operating expenses. The Board has reimbursed the fiscal court for amounts due.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004 the county's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

Note 3. Short-Term Debt

Changes in Short-Term Liabilities

In July 2003, Pike County participated in the Kentucky Association of Counties' Kentucky Advance Revenue Program by issuing a note in the amount of \$5,585,500 with principal being due in January 2004. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties' Kentucky Advance Revenue Program of \$1,621.

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$ 0	\$ 5,585,500	\$ 5,585,500	\$ 0
Governmental Activities				
Short-Term Liabilities	<u>\$ 0</u>	<u>\$ 5,585,500</u>	<u>\$ 5,585,500</u>	<u>\$ 0</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 330,000	\$ 101,117	\$ (50,000)	\$ 381,117
Total Capital Assets Not Being Depreciated	330,000	101,117	(50,000)	381,117
Capital Assets, Being Depreciated:				
Buildings	\$ 14,584,989	\$ 234,881	\$	\$ 14,819,870
Vehicles and Equipment	5,594,729	344,769	(147,560)	5,791,938
Infrastructure	98,686,308	4,779,815	(145,926)	103,320,197
Total Capital Assets Being Depreciated	\$ 118,866,026	\$ 5,359,465	\$ (293,486)	\$ 123,932,005
Less Accumulated Depreciation For:				
Buildings	\$ (6,308,474)	\$ (457,108)	\$	\$ (6,765,582)
Vehicles and Equipment	(3,231,943)	(450,858)	82,770	(3,600,031)
Infrastructure	(69,743,932)	(4,227,447)	110,904	(73,860,475)
Total Accumulated Depreciation	\$ (79,284,349)	\$ (5,135,413)	\$ 193,674	\$ (84,226,088)
Total Capital Assets, Being Depreciated, Net	39,581,677	224,052	(99,812)	39,705,917
Government Activities Capital Assets, Net	<u>\$ 39,911,677</u>	<u>\$ 325,169</u>	<u>\$ (149,812)</u>	<u>\$ 40,087,034</u>
<u>Business-type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 5,100,390	\$ 71,483	\$ (167,109)	\$ 5,004,764
Less Accumulated Depreciation For:				
Vehicles and Equipment	(2,978,097)	(295,119)	133,687	(3,139,529)
Business-type Activities Capital Assets, Net	<u>\$ 2,122,293</u>	<u>\$ (223,636)</u>	<u>\$ (33,422)</u>	<u>\$ 1,865,235</u>
<u>Component Unit Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 377,368	\$ 403,258	\$	\$ 780,626
Less Accumulated Depreciation For:				
Vehicles and Equipment	(95,416)	(66,065)		(161,481)
Business-type Activities Capital Assets, Net	<u>\$ 281,952</u>	<u>\$ 337,193</u>	<u>\$ 0</u>	<u>\$ 619,145</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets (Continued)

Governmental Activities:

General Government	\$ 470,706
Protection to Persons and Property	164,958
General Health and Sanitation	4,284
Recreation and Culture	26,587
Roads, Including Depreciation of General Infrastructure Assets	4,468,878
Total Depreciation Expense - Governmental Activities	<u>\$ 5,135,413</u>

Business-type Activities:

Solid Waste Vehicles and Equipment	<u>\$ 295,119</u>
Total Depreciation Expense - Business Activities	<u>\$ 295,119</u>

Component Unit Activities:

Protection to Persons and Property	<u>\$ 66,065</u>
Total Depreciation Expense - Business Activities	<u>\$ 66,065</u>

Note 5. Financing Obligations

Governmental Activities

- A. On February 5, 2001, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for acquisition of seven computer systems. The principal amount of the lease was \$8,500. The agreement required variable monthly payments for 3 years and was paid in full March 20, 2004.
- B. On June 17, 1991, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for courthouse renovations. The principal amount of the lease was \$5,000,000. The agreement requires variable monthly payments for 25 years to be paid in full July 1, 2016, with a variable interest rate. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. The principal balance of the agreement was \$3,370,801 as of June 30, 2004. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Scheduled Principal	Scheduled Interest And Other Fees
2005	\$ 213,787	\$ 93,094
2006	224,127	86,986
2007	234,966	80,523
2008	246,330	73,921
2009	258,242	66,831
2010-2014	1,491,081	216,070
2015-2016	702,268	23,896
Totals	<u>\$ 3,370,801</u>	<u>\$ 641,321</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

- C. On June 29, 1993, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for additional courthouse renovations and furniture. The principal amount of the lease was \$600,000. The agreement requires variable monthly payments for 25 years to be paid in full March 1, 2018, with a variable interest rate. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. The principal balance of the agreement was \$412,869 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 21,223	\$ 11,462
2006	22,365	10,854
2007	23,568	10,206
2008	24,836	9,545
2009	26,173	8,827
2010-2014	153,565	32,052
2015-2018	141,139	8,321
Totals	<u>\$ 412,869</u>	<u>\$ 91,267</u>

- D. On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment and vehicles. The principal amount of the lease was \$925,000. The agreement requires variable monthly payments for 5 years to be paid in full December 20, 2004, with a variable interest rate. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. The principal balance of the agreement was \$100,817 as of June 30, 2004. Lease payments for the remaining year are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	100,817	975
Totals	<u>\$ 100,817</u>	<u>\$ 975</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

- E. On November 20, 2000, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment. The principal amount of the lease was \$1,028,500. The agreement requires variable monthly payments for 5 years to be paid in full March 20, 2006. The principal balance of the agreement was \$436,500 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 214,000	\$ 16,557
2006	222,500	6,187
Totals	<u>\$ 436,500</u>	<u>\$ 22,744</u>

- F. On October 1, 2001, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of eight 2001 Ford Crown Victorias. The principal amount of the lease was \$180,000. This agreement requires variable monthly payments for four years to be paid in full January 20, 2006, with a variable interest rate. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. The principal balance of the agreement was \$90,000 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 45,000	\$ 2,637
2006	45,000	972
Totals	<u>\$ 90,000</u>	<u>\$ 3,609</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

G. On January 17, 2003, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The principal amount of the lease was \$4,250,000. The agreement requires variable monthly payments for 3 years to be paid in full February 20, 2006, with a variable interest rate. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. The principal balance of the agreement was \$2,409,310 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 1,431,401	\$ 52,746
2006	977,909	11,641
Totals	<u>\$ 2,409,310</u>	<u>\$ 64,387</u>

H. On January 17, 2003, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for 911 vehicles. The principal amount of the lease was \$75,000. The agreement requires variable monthly payments for 5 years to be paid in full on January 20, 2008. The principal balance of the agreement was \$60,000 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 15,000	\$ 1,895
2006	15,000	1,366
2007	15,000	837
2008	15,000	308
Totals	<u>\$ 60,000</u>	<u>\$ 4,406</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

Business-Type Activities

- I. On December 18, 1998, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for solid waste vehicles and equipment. The principal amount of the lease was \$1,000,000. The agreement required variable monthly payments for 5 years and was paid in full February 1, 2004.
- J. On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$315,625. The agreement requires variable monthly payments for 60 months to be paid in full April 20, 2005, with a variable interest rate. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. The principal balance of the agreement was \$57,109 as of June 30, 2004.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 57,109	\$ 767
Totals	<u>\$ 57,109</u>	<u>\$ 767</u>

- K. On January 11, 2002, Pike County entered into a lease agreement with Kentucky Association of County Leasing Trust Program for landfill equipment. The principal amount of the lease was \$3,775,724. The agreement requires variable monthly payments for six years to be paid in full January 20, 2008. The principal balance of the agreement was \$2,619,879 as of June 30, 2004.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 614,846	\$ 103,092
2006	640,854	75,803
2007	667,962	47,360
2008	696,217	17,713
Totals	<u>\$ 2,619,879</u>	<u>\$ 243,968</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

Business-Type Activities (Continued)

- L. On January 17, 2003, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$625,000. The agreement requires monthly payments for 4 years to be paid in full January 20, 2007. The principal balance of the agreement was \$475,000 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 155,000	\$ 13,646
2006	160,000	8,423
2007	160,000	3,103
Totals	<u>\$ 475,000</u>	<u>\$ 25,172</u>

Note 6. General Obligation Bonds

In February 1997, the Pike County Public Properties Corporation, a component unit of the Pike County Fiscal Court, issued \$5,875,000 in refunding revenue bonds to refinance the Hall of Justice. The bonds require semiannual interest payments due August 20 and February 20 and one principal payment each year due August 20. The bonds will mature February 20, 2019. As of June 30, 2004, the principal amount outstanding was \$4,535,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest And Other Fees</u>
2005	\$ 225,000	\$ 250,974
2006	235,000	239,241
2007	250,000	226,628
2008	260,000	213,240
2009	275,000	199,059
2010-2014	1,630,000	741,897
2015-2019	1,660,000	240,600
	<u>\$ 4,535,000</u>	<u>\$ 2,111,639</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. General Obligation Bonds (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,750,000	\$	\$ 215,000	\$ 4,535,000	\$ 225,000
Financing Obligations	8,958,591		2,078,294	6,880,297	2,041,229
Governmental Activities Long-term Liabilities	<u>\$ 13,708,591</u>	<u>\$ 0</u>	<u>\$ 2,293,294</u>	<u>\$11,415,297</u>	<u>\$ 2,266,229</u>
<u>Business-type Activities:</u>					
Financing Obligations	\$ 4,174,628	\$	\$ 1,022,640	\$ 3,151,988	\$ 826,955
Business-type Activities Long-term Liabilities	<u>\$ 4,174,628</u>	<u>\$ 0</u>	<u>\$ 1,022,640</u>	<u>\$ 3,151,988</u>	<u>\$ 826,955</u>

Note 7. Interest On General Obligation Bonds and Financing Obligations

Interest on the general obligation bonds and financing obligations on the State of Activities is included in the following functions: debt service \$375,323; roads \$126,417; general government \$3,591; protection to persons and property \$2,544; and social services \$40.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer deferred benefit pension plan which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System at 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2004, Pike County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction or reconstruction to arrive at estimated historical cost.

Note 11. Landfill Closure and Post-Closure Costs

401 KAR 48:310, Sections 2 and 3 require the owner or operator of a landfill to have a detailed written estimate, in current dollars, the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of June 30, 2004, 36 percent of phase four of the landfill capacity had been used.

Pike County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$6,937,700, and estimated post closure care costs total \$10,120 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statements are prepared on a modified cash basis of accounting and in accordance with the laws of Kentucky, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The fiscal court deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2004, the Ford's Branch Landfill Closing Fund had a balance of \$1,631,748.

The Ford's Branch Landfill is scheduled to close in the year 2010. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Fund Account to pay estimated closures and post-closure costs.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 12. Property Taxes

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

Note 13. Prior Period Adjustments

Prior period adjustments have been made to the primary government's general fund balance, governmental net assets, and enterprise fund net assets. In addition, the component unit's June 30, 2003 balance for net assets, capital assets not depreciated, accumulated depreciation, and the beginning fund balance (Pike County Interlocal 911 Board) have been adjusted. Adjustments are as follows:

Prior Period Fund Balance Adjustment - Primary Government

June 30, 2003 Fund Balance - General Fund	\$ 936,183
Items Not Previously Recorded:	
FY 2003 Receivable due from Airport Board	48,847
FY 2003 Receivable due from Golf Management Board	75,739
FY 2003 Receivable due from Interlocal 911 Board	<u>19,752</u>
June 30, 2003 Adjusted Fund Balance	<u>\$ 1,080,521</u>

Prior Period Net Asset Adjustment - Primary Government

June 30, 2003 Net Asset Balance - Governmental Funds	\$ 33,907,862
Items Not Previously Recorded:	
FY 2003 Receivable due from Airport Board	48,847
FY 2003 Receivable due from Golf Management Board	75,739
FY 2003 Receivable due from Interlocal 911 Board	19,752
Prior Year Capital Lease Acquisition Fund Balance	<u>4,212</u>
June 30, 2003 Adjusted Net Asset Balance	<u>\$ 34,056,412</u>

Prior Period Net Asset Adjustment - Primary Government

June 30, 2003 Net Asset Balance - Enterprise Funds	\$ (171,732)
Prior Year Miscalculation	<u>(10)</u>
June 30, 2003 Adjusted Net Asset Balance	<u>\$ (171,742)</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 13. Prior Period Adjustments (Continued)

Prior Period Net Asset Adjustment - Component Unit

June 30, 2003 Net Asset Balance	\$ 342,892
Items Not Previously Recorded:	
Capital Assets Not Previously Recorded	229,627
FY 2003 Payable due to Primary Government	<u>(19,752)</u>
June 30, 2003 Adjusted Net Asset Balance	<u>\$ 552,767</u>

Prior Period Capital Asset Adjustment - Component Unit

June 30, 2003 Capital Assets, Being Depreciated:	
Vehicles and Equipment	\$ 100,387
Capital Assets Not Previously Recorded-Historical Cost	<u>276,981</u>
June 30, 2003 Adjusted Net Asset Balance	<u>\$ 377,368</u>

Prior Period Capital Asset Adjustment - Component Unit

June 30, 2003 Accumulated Depreciation For:	
Vehicles and Equipment	\$ (48,062)
Accumulated Depreciation Not Previously Recorded	<u>(47,354)</u>
June 30, 2003 Adjusted Net Asset Balance	<u>\$ (95,416)</u>

Prior Period Fund Balance Adjustment - Component Unit

June 30, 2003 Fund Balance - Pike County Interlocal 911 Board	\$ 104,062
Item Not Previously Recorded:	
FY 2003 Payable due Primary Government	<u>(19,752)</u>
June 30, 2003 Adjusted Fund Balance	<u>\$ 84,310</u>

Note 14. Related Party Transactions

The County entered into the following related party transactions, which were approved by the fiscal court.

The county expended \$2,840 with Venters BP for towing services. Venters BP is owned by County Magistrate Kenneth Robinson's son.

The county expended \$12,435 with Deskins Motors for parts and labor. Deskins Motors is owned by County Judge/Executive William Deskins' brother.

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2004

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,833,000	\$ 3,714,689	\$ 3,476,165	\$ (238,524)
In Lieu Tax Payments	24,000	25,964	29,013	3,049
Excess Fees	475,000	496,271	525,392	29,121
Licenses and Permits	208,000	208,000	241,483	33,483
Intergovernmental Revenue	4,536,736	5,779,771	2,698,322	(3,081,449)
Charges for Services	30,600	32,734	35,623	2,889
Miscellaneous	657,000	463,400	453,520	(9,880)
Interest	60,500	12,120	9,480	(2,640)
Total Revenues	9,824,836	10,732,949	7,468,998	(3,263,951)
EXPENDITURES				
General Government	3,056,438	3,226,490	3,044,626	181,864
Protection to Persons and Property	86,714	584,771	147,982	436,789
General Health and Sanitation	3,566,500	3,568,500	1,639,524	1,928,976
Social Services	155,876	184,152	166,862	17,290
Recreation and Culture	334,816	937,812	478,372	459,440
Roads	58,155	66,629	63,345	3,284
Airports	77,250	77,250	73,858	3,392
Debt Service	5,043,750	5,128,127	5,585,500	(457,373)
Capital Projects	1,003,807	970,659	567,905	402,754
Administration	1,404,663	1,371,637	1,246,203	125,434
Total Expenditures	14,787,969	16,116,027	13,014,177	3,101,850
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(4,963,133)	(5,383,078)	(5,545,179)	(162,101)
OTHER FINANCING SOURCES (USES)				
Borrowed Money	5,000,000	5,000,000	5,585,500	585,500
Transfers From Other Funds		473,262	473,262	
Transfers To Other Funds	(623,109)	(623,109)	(610,000)	13,109
Transfers to Component Unit	(403,258)	(403,258)	(403,258)	
Total Other Financing Sources (Uses)	3,973,633	4,446,895	5,045,504	598,609
Net Changes in Fund Balances	(989,500)	(936,183)	(499,675)	436,508
Fund Balances - Beginning	989,500	936,183	936,183	
Fund Balances - Ending	\$	\$	\$ 436,508	\$ 436,508

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Protection to Persons and Property	\$ 50	\$ 743	\$ 743	\$
Intergovernmental Revenue	5,736,286	7,602,657	8,140,311	537,654
Miscellaneous	21,025	151,730	153,166	1,436
Interest			11,164	11,164
Total Revenues	5,757,361	7,755,130	8,305,384	550,254
EXPENDITURES				
Roads	9,029,677	11,023,220	9,347,177	1,676,043
Administration	1,058,721	1,063,059	993,514	69,545
Total Expenditures	10,088,398	12,086,279	10,340,691	1,745,588
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(4,331,037)	(4,331,149)	(2,035,307)	2,295,842
OTHER FINANCING SOURCES (USES)				
Lease Proceeds	2,125,475	2,125,475		(2,125,475)
Transfers To Other Funds	(512,714)	(512,714)	(512,714)	
Transfers from Other Funds	2,718,276	2,718,276	2,486,000	(232,276)
Total Other Financing Sources (Uses)	4,331,037	4,331,037	1,973,286	(2,357,751)
Net Changes in Fund Balances		(112)	(62,021)	(61,909)
Fund Balances - Beginning		112	4,259,583	4,259,471
Fund Balances - Ending	\$	\$	\$ 4,197,562	\$ 4,197,562

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 8,995,000	\$ 8,904,767	\$ 9,865,675	\$ 960,908
Charges for Services	100	100		(100)
Miscellaneous Revenues		88,495	88,495	
Total Revenues	8,995,100	8,993,362	9,954,170	960,808
EXPENDITURES				
General Government	137,780	138,280	124,523	13,757
Protectio to Persons and Property	696,249	670,366	642,812	27,554
General Health and Santitation	517,411	536,370	425,215	111,155
Social Services	1,180,912	1,221,758	1,073,407	148,351
Recreation and Culture	2,628,000	2,675,970	1,517,954	1,158,016
Other Transportation Facilities and Services	13,000	13,000	11,459	1,541
Debt Service	569,454	556,954	337,412	219,542
Administration	143,029	152,281	137,173	15,108
Total Expenditures	5,885,835	5,964,979	4,269,955	1,695,024
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	3,109,265	3,028,383	5,684,215	2,655,832
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(3,109,265)	(3,582,527)	(3,566,217)	16,310
Total Other Financing Sources (Uses)	(3,109,265)	(3,582,527)	(3,566,217)	16,310
Net Changes in Fund Balances		(554,144)	2,117,998	2,672,142
Fund Balances - Beginning		554,144	554,144	
Fund Balances - Ending	\$	\$	\$ 2,672,142	\$ 2,672,142

**PIKE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2004

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances

General fund debt service expenditures and financing obligation proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Modified Cash Basis do not agree to amounts reported on the General Fund Budgetary Comparison Schedules – Major Funds because of short-term borrowing of \$5,585,500. The \$5,585,500 was borrowed and repaid during the same fiscal year.

**PIKE COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

PIKE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Jail Fund	Federal Grant Fund	Forestry Fund	Local Government Economic Development Fund	Maintenance Garage Fund
ASSETS					
Cash and Cash Equivalents	\$ 26,971	\$	\$ 80	\$ 916,911	\$ 9,693
Total Assets	<u>\$ 26,971</u>	<u>\$ 0</u>	<u>\$ 80</u>	<u>\$ 916,911</u>	<u>\$ 9,693</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$	\$	\$	\$	\$ 22,883
Debt Service					
Unreserved:					
Special Revenue Funds	<u>26,971</u>		<u>80</u>	<u>916,911</u>	<u>(13,190)</u>
Total Fund Balances	<u>\$ 26,971</u>	<u>\$ 0</u>	<u>\$ 80</u>	<u>\$ 916,911</u>	<u>\$ 9,693</u>

PIKE COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Capital Lease Acquisition Fund	Public Properties Corporation	Total Governmental Funds
<u>\$ 3,507</u>	<u>\$ 482,707</u>	<u>\$ 1,439,869</u>
<u>\$ 3,507</u>	<u>\$ 482,707</u>	<u>\$ 1,439,869</u>
\$	\$	\$
	482,707	22,883 482,707
<u>3,507</u>	<u></u>	<u>934,279</u>
<u>\$ 3,507</u>	<u>\$ 482,707</u>	<u>\$ 1,439,869</u>

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PIKE COUNTY
COMBINING OPERATING STATEMENT –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

PIKE COUNTY
COMBINING OPERATING STATEMENT -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Jail Fund	Federal Grant Fund	Forestry Fund	Local Government Economic Development Fund
REVENUES				
Taxes	\$	\$	\$ 6,650	\$
Intergovernmental	792,765	151,423		
Charges For Services	126,199			
Miscellaneous	8,434			38,184
Interest				1,235
Total Revenues	<u>927,398</u>	<u>151,423</u>	<u>6,650</u>	<u>39,419</u>
EXPENDITURES				
General Government				\$ 541,550
Protection to Persons and Property	1,456,557		8,208	
Other Transportation Facilities & Services				
Debt Service				
Capital Projects		151,423		
Administration	497,483			
Total Expenditures	<u>1,954,040</u>	<u>151,423</u>	<u>8,208</u>	<u>541,550</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,026,642)</u>		<u>(1,558)</u>	<u>(502,131)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	999,281		1,556	
Total Other Financing Sources (Uses)	<u>999,281</u>		<u>1,556</u>	
Net Change in Fund Balances	(27,361)		(2)	(502,131)
Fund Balances - Beginning	54,332		82	1,419,042
	<u>\$ 26,971</u>	<u>\$ 0</u>	<u>\$ 80</u>	<u>\$ 916,911</u>

PIKE COUNTY
COMBINING OPERATING STATEMENT –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Maintenance Garage Fund	Capital Lease Acquisition Fund	Public Properties Corporation	Total Governmental Funds
\$	\$	\$	\$ 6,650
			944,188
			126,199
26,669		239,490	312,777
	17	26,025	27,277
<u>26,669</u>	<u>17</u>	<u>265,515</u>	<u>1,417,091</u>
			\$ 541,550
			1,464,765
958,626			958,626
	720	476,976	477,696
			151,423
246,509			743,992
<u>1,205,135</u>	<u>720</u>	<u>476,976</u>	<u>4,338,052</u>
<u>(1,178,466)</u>	<u>(703)</u>	<u>(211,461)</u>	<u>(2,920,961)</u>
1,184,797		216,118	2,401,752
<u>1,184,797</u>		<u>216,118</u>	<u>2,401,752</u>
6,331	(703)	4,657	(519,209)
3,362	4,210	478,050	1,959,078
<u>\$ 9,693</u>	<u>\$ 3,507</u>	<u>\$ 482,707</u>	<u>\$ 1,439,869</u>

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PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUND -
COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2004

**PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUND –
COMPONENT UNITS - MODIFIED CASH BASIS**

JUNE 30, 2004

	Pike County Interlocal 911 Board	Total Component Units
ASSETS		
Cash and Cash Equivalents	\$ 101,052	\$ 101,052
 Total Assets	<u>\$ 101,052</u>	<u>\$ 101,052</u>
 FUND BALANCE		
Payable due Primary Government	\$ 14,311	\$ 14,311
Fund Balance:		
Unreserved	<u>86,741</u>	<u>86,741</u>
 Total Fund Balance	<u>\$ 101,052</u>	<u>\$ 101,052</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balance (Unreserved)	\$ 86,741
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	<u>619,145</u>
 Net Assets of Pike County Interlocal 911 Board	705,886
Net Assets of Pike County Golf Management Board	<u>86,778</u>
 Total Net Assets for Component Units	<u>\$ 792,664</u>

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Pike County Interlocal 911 Board	Total Component Units
REVENUES		
Charges for Services	\$ 425,180	\$ 425,180
Interest	569	569
Total Revenues	<u>425,749</u>	<u>425,749</u>
EXPENDITURES		
Protection to Persons and Property	588,526	588,526
Administration	238,050	238,050
Total Expenditures	<u>826,576</u>	<u>826,576</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(400,827)</u>	<u>(400,827)</u>
Other Financing Sources (Uses)		
Transfer in From Primary Government	<u>403,258</u>	<u>403,258</u>
Net Change in Fund Balances	2,431	2,431
Fund Balances - Beginning	84,310	84,310
Fund Balances - Ending	<u>\$ 86,741</u>	<u>\$ 86,741</u>

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Fund	\$ 2,431
Government funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets are allocated over their useful lives and reported as depreciation expense.	
Capital Outlay	403,258
Depreciation	<u>(66,065)</u>
Change in Net Assets of Pike County Interlocal 911 Board	339,624
Change in Net Assets of Pike County Golf Management Board	<u>(99,727)</u>
Total change in Net Assets for Component Units	<u>\$ 239,897</u>

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PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2004

**PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pike County. The auditor's report also expresses a qualified opinion on the aggregate discretely presented component units of Pike County.
2. Four reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Pike County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pike County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pike County reported in Part C of this schedule.
7. The programs tested as major programs were: Disaster and Emergency Assistance Grants - CFDA # 97.036 and Assistance of Firefighters Grant CFDA # 97.055.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pike County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

Reference Number 2004-1

The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County

The Pike County Fiscal Court currently has an Emergency Management Agency Director who lives in Floyd County. 39B.020(3)(b) states, "the local director shall be a resident of the Commonwealth of Kentucky and the county served." Despite letters from the Pike County Emergency Management Area Manager, and the Director of the Division of Emergency that state Doug Tackett should be allowed to continue in the position of Emergency Management Director for Pike County when he resides in Floyd County, the law is clear. The Emergency Management Director for Pike County must be a resident of Pike County. The Department of Military Affairs, Division of Emergency Management Personnel or the County Judge/Executive cannot waive the state statute. The penalty for a violation of any provision of KRS Chapter 39B is a Class A misdemeanor. The county received federal funds for Disaster and Emergency Assistance Grant Coordinator Salary in the amount of \$13,451. Failure to comply with KRS 39B.020(3)(b) could result in the possible loss of federal funds. We recommend the county comply with KRS 39B.020(3)(b) by appointing an EMA coordinator who is a resident of Pike County.

County Judge/Executive William M. Deskins' Response:

The Fiscal Court will discuss this issue in executive session to work toward a solution for this problem.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS

Reference Number 2004-2

The County Should Maintain A Detailed Log Of County Owned Vehicles

The Fiscal Court uses vehicles in order to provide services to Pike County (Road Department, Solid Waste Department, etc.). However, we were unable to trace the vehicle usage back to detailed logs. Logs are needed to provide proof that the use is a legitimate expenditure of the Fiscal Court. A detailed log should be maintained on each vehicle that lists the following:

- The date of each and every use. (This includes every trip taken for whatever reason)
- The mileage at the start and at the end of each use.
- The expense (gas, oil, maintenance, etc) incurred during the use.
- The purpose of each use.

These logs will be checked during the annual audit to determine if county's vehicles were used for legitimate purposes. We recommend that the Fiscal Court immediately implement procedures to ensure that detailed logs for county vehicle usage are maintained.

County Judge/Executive William M. Deskins' Response:

The County will look into what courses of action we can take to rectify this problem.

Reference Number 2004-3

The Use of County Vehicles For Commuting Is Taxable Income

During the audit, we found that the County allows several county employees to drive their county vehicles to and from work. Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee. There are several ways to value the commuting use of a car for income and FICA tax purposes: the cents-per-mile rule, the lease value rule, and the commuting rule. We recommend that these employees value their use of their vehicles by one of the above ways and report this amount as income on their W-2s.

County Judge/Executive William M. Deskins' Response:

According to the solution the court agrees on, we will begin issuing W-2's for mileage.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

Reference Number 2004-4

The County Should Fully Comply With The County's Administrative Code

The county's administrative code, Section 605, requires all vehicles, heavy construction equipment, and other mobile property owned by the County be identified by the official emblem of the county and be assigned a number which shall be unique to the piece of property. There are exceptions to allow Sheriff's office vehicles to display the official seal of the Sheriff's office and to omit the seal from vehicles used for undercover investigations. Auditors have observed in the county parking lot several vehicles with official tags [registered to the county] that are not identified by the official emblem of the county and/or do not display a unique number assigned to the property. These vehicles are not assigned to the Sheriff's office and are not used for undercover investigations. Auditors note that observations indicate that most county vehicles are properly identified and numbered. However, we recommend the county fully comply with the county's administrative code by assuring proper identification of all fiscal court owned vehicles

County Judge/Executive William M. Deskins' Response:

We will comply.

Reference Number 2005-5

The Fiscal Court Should Have A Written Agreement With The Pike County Inter-Local 911 Board

The Pike County Fiscal Court and the Pike County Inter-Local 911 Board (the Board) do not have a written agreement, which establishes the Fiscal Court's financial relationship with the Board. Currently, the county pays all of the Board's expenditures from the general fund and subsequently bills the Board for the items paid. The Board meets periodically to review expenditures that will be paid by the county. We recommend the Fiscal Court direct the Board to review detailed listings of all claims that are scheduled for payment before the fiscal court issues checks to vendors on behalf of 911. The Fiscal Court should not pay any bills on behalf of 911 until authorization is received from the Board. In addition, we recommend that the Fiscal Court and the Board have a written agreement to establish specific guidelines regarding the county's responsibility to the Board for payment of claims expended by the fiscal court on behalf of the board.

County Judge/Executive William M. Deskins' Response:

The Fiscal Court and the 911 Board will work together to get this issue resolved.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT**

None.

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Federal Grantor

Program Title

Grant Name (CFDA #)

Pass-Through

Grantor's Number

Expenditures

Cash Programs:

U.S. Department of Housing and
Urban Development

Passed-Through State Department Of
 Local Government:

Community Development Block
 Grant-

Phelps/Buskirk Sewage
 (CFDA #14.219)

96-046

\$ 151,423

U. S. Department of the Interior

Passed-Through State Department
 of Natural Resources

Abandoned Mine Land Reclamation
 Programs-

Feds Creek/Mouthcard Water Supply
 (CFDA #15.252)

12-34-600-FMAO-
 E415-04

1,610,796

U. S. Department of Commerce

Passed-Through National Oceanic and Atmospheric
 Administration

PRIDE Community Grant
 (CFDA 11.469)

Not Available

78,015

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2004
(Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Public Assistance Grant - August 2001 Flood (CFDA #97.036)	FEMA-1388-DR-KY	\$ 255,380
Public Assistance Grant - May 2002 Flood (CFDA #97.036)	FEMA-1414-DR-KY	1,109,793
Public Assistance Grant - February 2003 Flood (CFDA #97.036)	FEMA-1454-DR-KY	1,093,821
Public Assistance Grant - June 2003 Flood (CFDA #97.036)	FEMA-1475-DR-KY	1,162,861
Public Assistance Grant - May 2004 Flood (CFDA #97.036)	FEMA-1523-DR-KY	106,361
Assistance of Firefighters Grant (CFDA #97.055)	EMW-2003-FG-07819	309,744
Weapons of Mass Destruction Grant (CFDA #97.051)	Not Available	136,639
Coordinator Salary (CFDA #83.534)	Not Applicable	13,451
Total U.S. Department of Homeland Security		<u>4,188,050</u>
Total Cash Expenditures of Federal Awards		<u>\$ 6,028,284</u>

PIKE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pike County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures for Abandoned Mine Land Reclamation Program Feds Creek/Mouthcard Water Supply and Community Development Block Grant – Phelps/Buskirk Sewage Project includes grants to the subrecipient as follows:

<u>Subrecipient</u>	<u>CFDA Number</u>	<u>Pass-through Grant Amount</u>
Mountain Water District	14.219	\$ 151,423
Mountain Water District	15.252	\$ 1,610,796

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pike County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pike County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- 2004-2 The County Should Maintain A Detailed Log Of County Owned Vehicles
- 2004-3 The Use Of County Vehicles For Commuting Is Taxable Income
- 2004-4 The County Should Fully Comply With The County's Administrative Code
- 2004-5 The Fiscal Court Should Have A Written Agreement With The Pike County Inter-Local
911 Board



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

2004-5 The Fiscal Court Should Have A Written Agreement With The Pike County Inter-Local
 911 Board

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Pike County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of questioned costs.

2004-1 The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 6, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pike County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Pike County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pike County's management. Our responsibility is to express an opinion on Pike County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pike County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pike County's compliance with those requirements.

In our opinion, Pike County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Pike County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pike County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 6, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

PIKE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

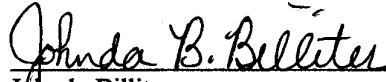
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
PIKE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Pike County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Economic Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



William Deskins
County Judge/Executive



Jonda Billiter
County Treasurer